

Message Text

LIMITED OFFICIAL USE

PAGE 01 LISBON 07641 01 OF 02 241636Z

42

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SAM-01 AF-06 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

DODE-00 PM-04 H-02 L-03 NSC-05 PA-01 PRS-01 SS-15

/093 W

----- 024227

P R 241437Z DEC 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 5444

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION NATO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 7641

E.O. 11652: N/A

TAGS: ECON, PO

SUBJECT: ECONOMIC AUSTERITY: PRIME MINISTER'S SPEECH AND
GOP MEASURES

REF: LISBON 7637

SUMMARY: PRIME MINISTER MADE EXTREMELY FRANK NATION-WIDE TV
SPEECH DEC 23 STRESSING NEED FOR SACRIFICE IN ORDER TO RESOLVE
ECONOMIC CRISIS. COOPERATION OF LABOR WAS SINGLED OUT AS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 07641 01 OF 02 241636Z

CRUCIAL FACTOR. MOST IMPORTANT MEASURE APPROVED BY COUNCIL OF

MINISTERS WAS EXTENSION OF COLLECTIVE BARGAINING SUSPENSION.
MINISTERS ALSO CREATED INSTITUTE FOR TOURISM DEVELOPMENT
AND ANNOUNCED GOP INTENTION LEAVE MOST OF SECTOR IN
PRIVATE HANDS. SPEECH AND MEASURES ARE ANOTHER STEP IN GOP
AUSTERITY PROGRAM. END SUMMARY

1. IN NATION -WIDE TV ADDRESS DEC 23, PRIME MINISTER PINHEIRO
DE AZEVEDO SET FORTH IN CLEAREST AND MOST BRUTAL FORM TO DATE
NATION'S ECONOMIC CRISIS. MAIN POINTS FOLLOW:

A) CUSTOMARY WISH FOR PROSPEROUS NEW YEAR ONLY POSSIBLE
THROUGH DEMAGOGUERY, AS PROSPEROUS NEW YEAR WOULD COME
ONLY THROUGH A MIRACLE.

B) TENUOUS SIGNS THAT POLITICAL STABILITY CAN HAVE IM-
PORTANT POSITIVE EFFECT ON ECONOMY ARE THESE POST-
NOVEMBER 25 DEVELOPMENTS-(1) INCREASE IN BANK DEPOSITS;
(2) SIGNIFICANT RECUPERATION IN EMIGRANT REMITTANCES; (3)
DIMINISHED DIFFICULTIES IN RENEWING FOREIGN CREDITS; (4)
INCREASE IN REAL ESTATE TRANSFERS.

C) INCREASED INVESTMENT AND CONTAINMENT OF PAYMENTS
DEFICIT MUST BE ACCOMPANIED BY EFFECTIVE MEASURES TO IN-
CREASE PRODUCTION AND RESTRICT CONSUMPTION. OTHERWISE,
NOTHING CAN SAVE COUNTRY FROM GALLOPING INFLATION, SHORTAGES
OF ESSENTIALS, AND SPREADING UNEMPLOYMENT.

D) GREAT SACRIFICES AND EXERTIONS WILL BE NEEDED TO:
(1) RESTIMULATE PRODUCTION AND COMBAT UNEMPLOYMENT; (2)
ELIMINATE ECONOMIC DISEQUILIBRIA; (3) AVOID UNEQUAL
DISTRIBUTION OF INCOMES; THERE IS STILL TIME TO
INTRODUCE FUNDAMENTAL EQUILIBRIUM WITHOUT PRONOUNCED
DROPS IN CONSUMPTION.

E) METHODS TO BE USED, WITH SELECTIVE CREDIT GIVE A
HIGH PRIORITY:

(1) REDUCE GOVERNMENT DEFICIT. GOVERNMENT SPENDING IN
1975 HAS UNFORTUNATELY BEEN USED TO CHANNEL EVEN MORE
MONEY INTO CONSUMPTION, RATHER THAN PROPER INVESTMENT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LISBON 07641 01 OF 02 241636Z

CHANNELS. INCREASES IN TAXES (ALREADY PARTIALLY DECREED)
WILL ESPECIALLY AFFECT LESS ESSENTIAL CONSUMPTION. NON-
PRODUCTIVE PUBLIC EXPENDITURES WILL BE RESTRICTED.

(2) REDUCE SOME SUBSIDIES. COUNTRY HAS TO HAVE COURAGE
TO CHANNEL TOWARD PRODUCTION AND INVESTMENT FINANCIAL
RESOURCES WHICH HAVE BEEN USED TO SUBSIDIZE CONSUMPTION
AND SALARIES.

(3) BRING COMPANIES BACK TO FINANCIAL EQUILIBRIUM. COUNTRY CANNOT CONTINUE REINFORCING THROUGH UNREDEEMABLE CREDITS-IN EFFECT SUBSIDIES-ECONOMIC INVIABILITY OF MANY FIRMS. FALSE IDEA EXISTS THAT UNEMPLOYMENT DUE TO CLOSINGS MUST BE AVOIDED AT ALL COST. "SUBSIDIZED UNEMPLOYMENT IS MUCH SMALLER EVIL THAN SUICIDAL UNDER-EMPLOYMENT".

F) IN MANY CASES WAGE INCREASES ARE NO LONGER BORNE BY CAPITALISTS, BUT BY THE POPULACE AT LARGE, ESPECIALLY BY UNEMPLOYED AND OTHER LESS FAVORED SOCIAL GROUPS, WHICH HAVE BEEN LARGELY BYPASSED BY REDISTRIBUTION OF INCOMES. HIGHER INCOMES HAVE ALREADY BEEN GREATLY AFFECTED, WITH FURTHER MEASURES TO COME.BUT REDISTRIBUTION CAN'T COME ONLY FROM HIGHER INCOMES; IN ANY CASE, MANY WORKERS NOW ARE ABOVE AVERAGE INCOME. ALSO, COUNTRY CANNOT DESTROY ALL INCENTIVES AND CONTINUE DRIVING NEEDED TECHNICIANS ABROAD OR INTO LESS DEMANDING JOBS.

G. FUTURE OF PORTUGUESE ECONOMY WITHIN COMING MONTHS WILL DEPEND DIRECTLY ON DISCIPLINE OF WORKERS AND UNIONS IN MAKING SALARY DEMANDS. THERE WILL HAVE TO BE SOLID AGREEMENT BETWEEN GOVERNMENT AND UNIONS ON INCOMES POLICY ADAPTED TO COUNTRY'S REAL POSSIBILITIES.

2. FOLLOWING IS SUMMARY OF MOST IMPORTANT ECONOMIC MEASURES COVERED BY COUNCIL OF MINISTERS MEETING OF DEC 23-24.

A) TOURISM-MINISTERS PASSED DECREE-LAW CREATING INSTITUTE FOR TOURISM DEVELOPMENT. INSTITUTE IS TO PROVIDE COORDINATED GOP FINANCIAL PARTPCIPATION IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LISBON 07641 01 OF 02 241636Z

INTERVENED TOURIST ENTERPRISES AND TO "RESTRUCTURE, RATIONALIZE AND DYNAMIZE" THEIR ACTIVITIES. COMMUNIQUE SPECIFICALLY NOTES THAT ESTABLISHMENT OF INSTITUTE WILL AVOID NEED TO NATIONALIZE SECTOR. PRIVATE ENTERPRISE WILL BE SUPPORTED WITH CREDIT AND ADMINISTRATIVE/TECHNICAL ASSISTANCE. EXTERNAL COMMERCE MINISTER CAMPINOS NOTED PROSPECTS FOR 1976 TOURISM ARE ENCOURAGING AND NEGOTIATIONS ARE IN PROCESS WITH LARGE SCANDINAVIAN TOURIST AGENCIES.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LISBON 07641 02 OF 02 241737Z

42

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SAM-01 AF-06 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

DODE-00 PM-04 H-02 L-03 NSC-05 PA-01 PRS-01 SS-15

/093 W

----- 024908

P R 241437Z DEC 75

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 5445

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION NATO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 7641

(COMMENT: GOP RECOGNITION OF IMPORTANCE OF TOURISM ILLUSTRATED
BY ATTENDANCE OF PRIME MINISTER AND FOUR OTHER MINISTERS
AT PUBLIC ANNOUNCEMENT OF DECREE-LAW AT RECEPTION FOR
TRAVEL AGENTS, AIRLINE REPRESENTATIVES, PRESS AND DIPLOMATS.
PM LEFT COUNCIL OF MINISTERS MEETING TO ATTEND RECEPTION.)

B) LABOR-MINISTER ROSA PRESENTED DETAILED EXPOSITION
OF WAGE POLICY MEASURES WHICH WILL HAVE TO BE TAKEN
AS PART OF INCOMES POLICY. THESE MEASURES WERE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LISBON 07641 02 OF 02 241737Z

DESCRIBED AS BEING COMPLEMENTARY TO PREVIOUSLY ANNOUNCED

FINANCE MINISTRY MEASURES. MINISTERS DISCUSSED BUT APPARENTLY REACHED NO CONCLUSIONS ON DRAFT LAWS ESTABLISHING AN OVERALL INCOMES POLICY, DEFINING CERTAIN FORMS OF WORKER CONTROL OF PRODUCTION, AND REVISING AND CONSOLIDATING REGULATIONS REGARDING FIRINGS. COUNCIL APPROVED EXTENSION UNTIL FEBRUARY 28, 1976 OF PRESENT SUSPENSION OF ALL COLLECTIVE LABOR CONTRACT NEGOTIATIONS.

C) OTHER MEASURES APPROVED:

1) EXTENSION OF 20PCT AND 30PCT IMPORT SURCHARGES UNTIL MARCH 31, 1976.

2) REVISION OF REGULATIONS GOVERNING ACTIVITY OF NATIONAL PUBLIC CREDIT COMMISSION.

3) GOP WILL CREATE 75PCT COPPER/25PCT NICKEL 10 ESCUDO (ABOUT 40 CENTS US) COIN IN AMOUNTS UP TO \$4 MILLION.

4) CURRENT EXEMPTION ON PAYMENT OF SOME REAL ESTATE TRANSFER TAXES EXTENDED UNTIL DEC 31, 1976. MEASURE DESIGNED TO STIMULATE CIVIL CONSTRUCTION SECTOR.

3. COMMENT: SPEECH AND MEASURES PASSED BY MINISTERS CONSTITUTE ANOTHER STEP IN THE GOP AUSTERITY PROGRAM. SPEECH WAS PARTICULARLY FRANK IN INFORMING LABOR THAT ITS SACRIFICES WILL HAVE TO BE KEY TO RESOLVING THE ECONOMIC CRISIS. PRIME MINISTER CAME CLOSE TO DEMANDING UNION COOPERATION. WHETHER THIS COOPERATION IS FORTHCOMING WILL BE CRUCIAL TO THE SUCCESS OF GOP ECONOMIC EFFORTS.

4. SPEECH EXTREMELY IMPORTANT IN ATTEMPTING TO ESTABLISH PSYCHOLOGICAL CLIMATE NECESSARY FOR IMPLEMENTATION OF TOUGH WAGE AND SALARY MEASURES. IT IS BECOMING CLEAR THAT THE GOP WILL MAKE STRONG EFFORT TO INSTITUTE A RESTRICTIVE INCOMES POLICY. WHILE ONLY DIFFICULT LABOR MEASURE APPROVED WAS EXTENSION OF COLLECTIVE BARGAINING NEGOTIATIONS SUSPENSION, MENTION OF OTHER LABOR ASPECTS IN COMMUNIQUE MAY BE FOREWARNING THAT THEY WILL BE APPROVED. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LISBON 07641 02 OF 02 241737Z

5. WHILE IT IS CLEAR GOP IS GIVING HIGHEST PRIORITY TO STIMULATING TOURISM, IT IS NOT CERTAIN WHETHER MEASURES APPROVED WILL HAVE DESIRED RESULTS. MANY CHARTERS AND TRAVEL PLANS HAVE ALREADY BEEN FINALIZED AND THE INSTITUTE WILL NOT BE EFFECTIVELY OPERATING FOR AT LEAST SIXTY DAYS. SHOULD THE NEGOTIATIONS WITH THE SCANDANAVIANS PROVE SUCCESSFUL, THIS WILL BE FIRST STEP IN RECUPERATION OF

THE TOURIST SECTOR. OVER THE LONGER-TERM, THE STATED
INTENTION TO LEAVE MOST OF THE SECTOR IN PRIVATE HANDS
IS ENCOURAGING.
CARLUCCI

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, POLICIES, SPEECHES, ECONOMIC PROGRAMS, CENTRAL GOVERNMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 24 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LISBON07641
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750447-0357
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751212/aaaaajyq.tel
Line Count: 281
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 LISBON 7637
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by MartinML>; APPROVED <10 JUL 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AUSTERITY: PRIME MINISTER'S SPEECH AND GOP MEASURES
TAGS: ECON, PO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006